Community Investment Coalition (CIC) newsletter, November 2017

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Campaign update

CIC is delighted to welcome Eleanor Pughe as the new CIC Policy and Research Assistant. Eleanor graduated from the University of Glasgow in 2015 with a degree in Politics, and has since worked in financial advice before joining CIC. You can read her profile here.

President Trump continues to roll back measures to support low income communities and regulate the financial services markets in America. The **National Community Reinvestment Coalition** (NCRC) has released a new report which focuses on mid-size banks and the level of their community development financing. It found that the proposals for changes to the Community Reinvestment Act (CRA) would allow midsize banks to circumvent federal requirements, resulting in billions less for affordable housing and economic development in disadvantaged and rebuilding communities, in both urban and rural areas. Its analysis concludes that eliminating the community development test or diminishing its rigor would result in at least 50% decrease in community development lending.

In addition, it has been reported by the New York Times that the banking industry regulator in the U.S, the Office of the Comptroller of the Currency, has softened its policy for punishing banks suspected of discriminatory lending. It has also clashed with another federal regulator that pushed to give consumers greater power to sue financial institutions. The shift is reported to be unfolding without congressional action or a rule-making process.

The changes are seen as part of a concerted effort by the Trump administration to unwind Obama-era rules, and install a set of regulators who come from the financial industry itself.

Conversely, **Santander US** CEO Scott Powell has announced its new "Inclusive Communities" plan; an $11 billion, five-year commitment to lending, community development and charitable giving in eight states of north eastern U.S. Santander plan to increase its CRA activity by fifty percent and triple its investment in charitable grants over this period. *"We recognise that Santander's success is directly linked to the prosperity of our communities' families, businesses and neighbourhoods. By increasing lending, investments and financial education opportunities, we hope to boost the long-term economic success of low and moderate income individuals and neighbourhoods"* commented Powell.

CIC continues to campaign for the need for some type of CRA for the UK and welcomes Santander's recognition of the important role banks can play in supporting local economic development.

CIC welcomes the release of the Law Commission's report on the Goods Mortgages Bill. The Bill seeks to update legislation on log book loans, a form of high cost credit. CIC made an early submission to the original consultation on log book loans, in which we called for significant reform. Bills of sale allow individuals to use goods they already own as a security for loans and other obligations whilst still retaining possession. The use of these has grown dramatically since 2001, the vast majority being logbook loans.

Logbook loans are a type of high cost lending where the borrower gives the lender a bill of sale on their vehicle. If the borrower defaults on their payment, they risk having their vehicle seized without the need for a court order, even if the loan has been almost completely repaid. These loans are often taken out by "subprime" borrowers who have difficulty accessing other forms of credit, and frequently lack transparency with many consumers unaware of the potential consequences of default. Further information is available here. CIC will support the Bill as it goes through Parliament by raising awareness of high cost of log book loans and the impact they can have on pushing people into debt.

The Government has also announced a new Geospatial Commission, in order to provide strategic oversight to the various public bodies who hold geospatial data.

We will be looking into these proposals in further detail in the coming weeks and welcome this move as a way of making more and better data available to support effective interventions in tackling financial exclusion in local communities.

Jennifer Tankard

Campaign Director

News

Link has launched a consultation on the future level of its interchange fee, which funds the free-to-use ATM network. Under the proposals, the fee, which is paid by card users to ATM operators would reduce from 25p to 20p per cash withdrawal. There are real concerns that this will make some ATMs economically unviable. Many low income communities already suffer from a lack of easy access to free-to-use ATMs.

Rt Hon. Nicky Morgan, Chair of the Treasury Committee, has written to the Chair of LINK about the consultation saying that: "LINK established its Financial Inclusion Programme as a result of an inquiry from a previous Treasury Committee into the provision of cash machines. The programme requires LINK to defend and improve access to cash for all UK consumers. Yet with the proposed 20 per cent reduction of the interchange fee, it seems intuitive that some machines will become economically unviable. There have been concerns that the proposals could lead to 'ATM deserts' for communities. As the Bank of England's Chief Cashier said, cash continues to play a key role for many, with 2.7 million people in the UK reliant almost entirely on cash transactions. I have asked LINK for assurances that the proposals will preserve the existing geographic spread of ATMs, and will have no negative impact on financial inclusion."

The consultation was published on 1st November, although without much publicity. The deadline is 30th November 2017. This short timescale will make it extremely difficult for many groups with concerns to respond.

The **Financial Conduct Authority** (FCA) has published the Final Summary of the independent review of Royal Bank of Scotland's (RBS) treatment of small and medium-sized enterprise (SME) customers transferred to its Global Restructuring Group (GRG). The independent review found that there had been widespread inappropriate treatment of SME customers by RBS which arose from a range of factors, including failure to comply with RBS's own policy in respect of communicating with customers around transfer, where the standard of much SME customer communication was poor and in some cases misleading; a failure to support SME businesses in a manner consistent with good turnaround practice and placing an undue focus on pricing increases and debt reduction without due consideration to the longer term viability of customers.

Autumn Budget

The Autumn Budget was unveiled on November 22nd.

In anticipation of the Autumn Statement, CIC partner Responsible Finance published an article on PoliticsHome outlining its 'Key Asks' for the budget. The article calls on the Chancellor to establish a £150m Responsible Finance Fund, and has so far had over 1,000 views.

A new £10 million 'Regulators' Pioneer Fund' and new Centre for Data Ethics and innovation were announced. The fund is hoped to help regulators develop innovative approaches to get new products and services to markets. Money and Mental Health posted a blog about the announcement; it believes that the fund could be used to support regulators in building an understanding of the needs of vulnerable consumers across markets, and to encourage firms to build new products and services which meet their needs.

TechUK welcome the announcement which it says *"builds on the sandbox approach by the FCA to support fleet of foot effective regulation. This will benefit consumers and businesses alike."*

The Budget also contained a new £1.7 billion Transforming Cities Fund, to back up the Northern Powerhouse, Midlands Engine and elected mayors across the UK.

Changes were announced to Universal Credit in the Budget, including the removal of the 7 day waiting period at the beginning of the claim. In addition, those struggling will be able to get a full month's advance payment within five days of applying, and those claiming for the first time who have previously got housing benefit will continue to receive this housing benefit for a further two weeks after their application. The changes were criticised by opposition parties and charities after it was revealed that they will not come into effect until as late as April 2018, however Citizens Advice Chief Executive Gillian Guy, welcomed the changes:

"The changes announced by the Chancellor today are a very welcome step towards fixing the problems with Universal Credit, and show the Government is acting on our evidence about the impact it's having on people's lives.

"These changes should make a significant difference to the millions of people who will be claiming Universal Credit by the time it's fully implemented. We'll continue to keep a close eye on the roll-out of Universal Credit and make sure they do.

"The next step will be to make changes to work incentives, so that no one is left worse off under Universal Credit than they would be under previous benefits."

The Low Pay Commission (LPC) has welcomed the Governments acceptance of the LPC's recommendations for the future National Living Wage and National Minimum Wage rates. The rates will apply from April 2018, and include a 4.4% rise in the National Living Wage.

Following its overnight analysis, the **Resolution Foundation** released a report in which it asserts that Britain is on course for the longest fall in living standards since records began over 60 years ago.

A new Fair By Design Fund was launched on 8th November. The fund aims to invest in ventures which can disrupt the energy, finance and insurance markets, and provide alternative services to people on low incomes. The new fund is backed by the **Joseph Rowntree Foundation, Big Society Capital, Nominet Trust, Ascension Ventures and Finance Birmingham**, and intends to raise £20 million over the next 12 months.

The British Business Bank's flagship Enterprise Finance Guarantee (EFG) programme has boosted the economy by £415 million, according to a new review by London Economics. EFG facilitates business loans to smaller businesses that are viable but unable to obtain finance from their lender due to having insufficient security to meet the lender's normal requirements. Many responsible finance providers use EFG to support small business lending.

Citizens Advice has released a warning that credit card companies are pushing credit on millions of people who can't pay. Fresh evidence has emerged that suggests 6 million people have had their credit limit increased in the last year without their consent. 32% of those who are showing signs of financial struggle were given a rise. Citizens Advice are concerned that credit card companies aren't being required to ask permission from their existing customers before raising limits and that they are lending too freely putting individuals and the wider economy at risk.

This month **Citizens Advice** also revealed that home insurance companies are routinely overcharging older people in the UK. New research suggests that up to 13 million households are being overcharged by companies simply for renewing their existing policy, with older people particularly vulnerable to these additional costs. On average this could be a cost of £110 per year to the most vulnerable groups in society.

CIC partner, the **Centre for Responsible Credit,** has called on the Government and stakeholders to stop and think about rent and Council Tax data sharing. It believes that the sharing of this information could be dangerous for those struggling financially – increasing their level of exclusion or raising the cost of credit – and that a more rigorous evaluation of the pros and cons needs to be carried out.

The Bill was debated on Friday 24th November, and intends to make it compulsory for lenders to take account of rental and Council Tax payment history when assessing a borrower's creditworthiness. The incorporation of such data into the credit referencing system is intended to improve access for tenants to lower cost credit. You can read the debate here.

Damon Gibbons, Director of the CfRC, commented:

"The evidence base for sharing rent and Council Tax data with credit reference agencies, and through them the wider credit industry, is flimsy at best. Adverse impacts – such as worsening credit scores for people in rent arrears – have routinely been played down, and the benefits for people with good payment histories overstated. A much more rigorous analysis is needed, and policy makers should not move forwards on this issue until it is available. For that reason we urge Members of the House of Lords to vote against Lord Bird's Bill tomorrow."

Interest Rate Rise

The **Bank of England's** Monetary Policy Committee announced an increase to the Bank Rate on 2nd November, raising it to 0.50 % in order to meet the 2% inflation target and sustain growth and employment.

The national poverty charity **Turn2us** warned that the rise is the last straw for many financially vulnerable homeowners, and a huge number of people will not be able to pay their increased monthly mortgage payment as a result.

The Trades Union Congress also warned that the hike is bad for working
people, and a *"hammer blow for those in problem debt, whose repayments will now rise."*

The Money Advice Trust also expressed alarm, stating that the rate rise could be 'turning point' for many stretched households.

Joanna Elson OBE, chief executive of the Money Advice Trust, the charity that runs National Debtline, said:

"High levels of household debt, a renewed squeeze on wages and now the prospect of higher interest rates threaten to be a dangerous mix for many households. Calls to National Debtline are already up 10 percent this year, and we expect demand for debt advice to increase significantly in a higher interst rate environment."

Parliamentary Activity

The Government response to the final report of the **Lords Select Committee on Financial Exclusion** was released on 7th November, displaying a commitment to tackling financial inclusion through the creation of the new Financial Inclusion Policy Forum. In a written submission to the Committee's call for evidence in September 2016, CIC partner Responsible finance wrote a proposal that included a list of recommendations to help the UK become a world leader in financial inclusion.

The **Money Advice Trust** welcomed the Government's creation of a Financial Inclusion Policy Forum, to drive better co-ordination in addressing the problem of financial exclusion.

The new forum will be co-chaired by the Economic Secretary to the Treasury, Stephen Barclay, and the Minister for Pensions and Financial Inclusion, Guy Opperman. It will bring together relevant Government departments, regulators, industry and consumer groups in order to maintain an open and constructive dialogue.

HMT's 'Breathing Space' call for evidence is open until 16th January 2018. The initiative aims to incentivise people to seek debt advice, or seek it earlier than they would otherwise have done, through freezing the interest and charges on debt due. The call covers access and entry to the breathing space, how it could work for creditors and debtors, and how to best design a statutory debt management plan.

The **Money Advice Trust** has reported that the use of bailiffs to collect debts owed to local authorities in England and Wales has jumped by 14% in two years. It also reports that bailiff use has been increasing overall since 2014/15. Its research was based on Freedom of Information requests, and showed that more than 2.3 million debts were passed on to bailiffs by local authorities in 2016/17. Despite this, almost 4 in 10 local authorities in England and Wales reduced their reliance on bailiffs over the past two years, and the vast majority signpost residents in financial difficulty to free debt advice.

On 8th November The Treasury Committee launched a new inquiry into household finances. It aims to take a broad look at the state of UK household balance sheets, attempting to ascertain whether households are saving adequately in the current economic environment. It will scrutinise problematic indebtedness, inter-generational issues, lifetime financial planning, and the effectiveness of the market in financing solutions and products to low income households.

On 10th November the Scottish Parliament congratulated Asda, working in partnership with Social Investment Scotland, on distributing £1 million in loans to community groups across Scotland from the Asda Community Capital Fund. The fund uses the proceeds from the 5p single use carrier bag charge to distribute small loans to social enterprises that find it difficult to access capital.

On 14th November the House of Commons held a discussion on Household finances: income, saving and debt. Michael Johnson, research fellow at the Centre for Policy Studies, Ashwin Kumar, chief economist of the Joseph Rowntree Foundation and Torsten Bell, director of the Resolution Foundation gave evidence. Key issues raised include the following.

On savings among low-income households:

Michael Johnson discussed the UK incentives system which he believes is fundamentally flawed and that financial incentives do not work. He asked *"why it is that approximately 70% of the Treasury's total investment in incentivising people to save goes to the top 15% of the income distribution, who are in least need of it."*

He suggested that the question was clarified to ascertain the objectives of the Government; *"Do you want the nation as a whole to have a larger pool of savings in aggregate, or do you want to increase the rate of saving by those at the lower end of the income distribution?".*

Answering a question from the chair on whether people are constrained to save, Torsted Bell replied:

"Wages are still £15 down on where they were before the financial crisis. Yes, we have record employment and the lowest unemployment for 40 years, which are big triumphs for policy, but after housing cost, incomes for low and middle-income families are still back to around 2003/2004 levels." He then references the Bank of England Data, stating *"how many people say they would like to save just £10 a week and say they cannot afford to do it, and the number is up – and it is a lot".*

On household debt levels:

Wes Streeting asked to separate out the two dimensions of the numbers surrounding household debt, namely secured lending and unsecured lending, which currently stands at 140% of income and is rising at the fastest rate for 11 years. Ashwin Kumar noted that the aggregate amount of debt is *"perhaps not the issue. It is the stress that some people feel when they are in debt, because they are not able to service the repayments."*

Torsten Bell added that the issue was with the micro bits of the debt situation:
"Worry about the 13% of households that are only making the minimum payment on their credit cards. For half of those people it is because they are financially savvy and have got themselves on interest-free credit cards, but the other half are only making minimum repayments despite having a large interest bill on those cards."

Focusing on the intricacies of household debt and what can be done in policy terms, Ashwin Kumar commented on the people who use short-term high-cost credit: *"what you tend to find in terms of the reasons why people are using those kinds of credit is there is one group of people for whom it is survival; it is just the only way that they can get through and pay for essentials."*

On consumer demand for credit and the impact of regulation on payday lending:

Ashwin Kumar commented *"StepChange did talk to some of their clients who had previously had payday loans and then been refused them. There was quite a high rate of loans from family and friends and other credit providers or going into arrears on household bills. The basic proposition that there is a demand for credit is definitely there. We have talked quite a bit about the stress on incomes and the lack of resilience to cope with unexpected bills. That then raises the question about other mechanisms for cheaper credit, such as the Social Fund, which was given to local authorities and changed in form so it essentially does not exist anymore. Also, what really is the capacity to scale up credit unions and other forms of credit whereby people on those kinds of incomes with poor credit histories are able to access more reasonable credit?"*

On 16th November the question was asked to Mr Chancellor of the Exchequer 'what estimate he has made of the number of adults without a bank account in each region of the UK; and if he will make a statement'. **Stephen Barclay, Economic Secretary to the Treasury** replied that no such estimate has been made, however independent estimates indicate that approximately 1.52 million adults in the UK do not have access to a bank account in their own name. He went on to say that the Government is committed to improving access to financial services, and that since September 2016 the nine largest personal current account providers in the UK are required by law to offer basic accounts to customers who do not have a bank account or who are ineligible for a bank's standard current account.

Reports and Research

The **Social Mobility Commission's** latest 'State of the nation' report has found that the UK has a striking geographical divide with London and its surrounding areas pulling away from the rest of the country, while many other parts of the country are left behind economically and hollowed out socially.

It warns that Britain is in the grip of a self-reinforcing spiral of ever-growing division and calls on Government to increase its proportion of spending on those parts of the country that most need it. Estimates suggest that the North is £6 billion a year underfunded compared to London.

The City UK, Santander UK and Shearman & Sterling have published a report on bridging the gap between FinTechs and Financial Institutions, entitled Transformation and Innovation: A guide to partnerships between financial service institutions and FinTechs. It sets out how greater collaboration between financial services institutions and FinTechs can smooth the path to developing innovative new digital products and services, and underlines how important these partnerships will be in helping to strengthen the UK's position as a word leading FinTech centre.

The Runnymede Trust and Women's Budget Group have released research showing that Universal Credit is failing the 'just about managing': with women and BME households hardest hit. It shows that the changes in Universal Credit, on top of the series of cuts and changes to the benefit and tax-system disproportionately affect these groups. In addition, contrary to arguments that the increase in the National Living Wage and the increased personal tax allowance will have compensated to these cuts, its analysis shows that this is not the case. Mary-Ann Stephenson, Co-director of the Women's Budget Group said:

"Again, our analysis of Universal credit claimants shows the devastating impact that austerity is having on women and BME women in particular. Women on Universal Credit stand to be £4000 a year worse off by April 2021 from all tax and benefit changes since 2010. Black women are losing the most: £5000 or 12 times as much as they gain from the National Living wage and increased personal tax allowance. The Government should take urgent action to put the roll out of Universal Credit on hold until it is fit for purpose, end the benefit freeze. In particular it should lift the arbitrary two child cap that is a direct attack on the human rights of younger siblings."

IHS Markit has released its UK Household Finance Index. Based on the November survey, it states that: UK households have reported a downturn in budgets and an increase in living costs; worries about the financial outlook are the most widespread since June; households have perceived the fastest fall in unsecured credit availability since June 2015; and over 50% of households expect a further Bank of England rate rise in the next six months.

Sam Teague, economist at IHS Markit, said:

"November's survey signalled a further worsening of the UK household budget squeeze. The latest deterioration reflected a reduction in real wages in the face of rising price pressures and a consequent fall in disposable income."

The **Financial Conduct Authority** (FCA) has published its Future Approach to Consumers report. The report follows its 'Mission', published in April, in which it committed to publishing a series of documents that would explain its approach to regulation in more detail. The report explores the FCA approach to regulating for retail consumers, and sets out its vision for markets, where it wants to see:

"Consumers are enabled to buy the products and services they need because the environment in which they are sold is clear, fair and not misleading with a good choice architecture.

High-quality, good value products and services that meet consumers' needs."

In addition, the FCA wants to be able to observe:

"Inclusion – where everyone is able to access the financial products they need and the needs of vulnerable consumers are taken into account. Protection – consumers are appropriately protected from harm."

Notably, the report addresses the financial exclusion faced by significant groups of consumers. It pledges to work with firms and stakeholders to develop practical strategies to tackle access problems.

The FCA has opened a consultation which is set to close on 5th February 2018, in order to ensure the proposed Approach will truly help meet the needs of consumers.

The **Institute for Fiscal Studies** released its report "Living standards, poverty and inequality in the UK: 2017-18 to 2021-22". The project, support by the **Joseph Rowntree Foundation and the Economic and Social Research Council**, attempts to estimate what has happened to household incomes and poverty rates since the latest statistics came out in 2015-16, and how they might evolve up to 2021-22.

The report findings show, for the period 2015-16 to 2021-22, that whilst the rate of absolute AHC poverty is projected to remain roughly unchanged, absolute child poverty is projected to increase, with Wales and the North East being hit particularly hard. In addition, despite income inequality having fallen since the recession, it is projected to rise over the next four years.

Street UK has launched its 2016-17 Social Impact Report which outlines its accomplishments throughout the past year. In this period, it has helped to service loans for over £155 million to individuals and enterprises that typically struggle to obtain credit from mainstream financial institutions.

Co-operatives UK announced the launch of a radical new practical programme to tackle inequality at the local level. It will channel £8 million into seven local areas of England over the next five years, with the aim of catalysing community businesses, increasing community wealth, creating local jobs and ownership and in turn boosting wellbeing. The programme is funded by Power to Change and will be delivered in partnership with New Economics Foundation.

In October, it published a report on its analysis of its two-year community-led economic development programme - the first Government-backed programme of this kind for 30 years. It will be of practical interest to communities thinking about their local economies, and to policymakers tasked with fostering a more inclusive economy, locally and nationally.

The report found that there is a strong and growing desire for local control over the economy – instead of conventional top-down approaches – but that community groups lack legitimacy and power in the planning process. It highlights that community economic development is a way of giving people real power.

Its programme supported local groups from 71 communities across England, from Manchester to Eastbourne, in developing and implementing plans to shape their local economies.

The Insolvency Service published its Insolvency Statistics – July to September 2017, which showed that personal insolvencies rose 11% from Q2 to Q3 2017, and are 8% higher than this time last year. Adrian Hyde, president of insolvency and restructuring trade body R3, commented *"falling real wages and exhausted credit limits may have helped to push personal insolvencies up again",* however, it is important *"to approach personal insolvency statistics with a touch of caution".*

Underlying corporate insolvencies also rose 15% from Q2 to Q3 2017, and are 15% higher than this time last year. Hyde noted that businesses have faced a number of fresh challenges over the past year, and whilst some of the added costs will have been passed on to consumers, reliance on consumer confidence isn't necessarily a recipe for long-term financial health.

The House of Commons released its Household Debt: Key Economic Indicators. The report shows that Household debt peaked in 2008, subsequently falling until 2016, after which it began to rise again. It stood at 140% of disposable income in Q2 2017 – its highest value since Q3 2012.

Events

The **New Economics Foundation** are hosting an expert round table on 14th December to discuss the future prospects for stakeholder banks, especially local and regional institutions. The aim is to debate the opportunities and obstacles to setting up accountable banks that serve the public interest. For more information or to book your place please email taline.hill@neweconomics.org.

New City Agenda are holding at event on 12th December entitled 'How Much Is Too Much? Why the Treasury View is Wrong, and Why We Must be Far More Ambitious about our National Debt' at the House of Commons, Committee Room 10.

Local Trust are hosting an event on 5th December on neighbourhood planning, and how it can be a powerful tool for Big Local areas. The event is for people in Big Local areas who want to engage with housing developers, build a relationship with local authorities, and find out how other Big Local areas are working to shape local planning policy and develop neighbourhood plans.